



INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of asset management at ICTY

Overall results relating to the adequate and effective asset management at ICTY were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

2 January 2013

Assignment No. AA2012/270/02

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AUDIT REPORT

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I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of asset management at the International Criminal Tribunal for the former Yugoslavia (ICTY or Tribunal).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. As at 31 May 2012, ICTY had assets valued at \$15 million (historical cost). From 1 January 2010 to 31 May 2012, ICTY disposed off/wrote off \$3.3 million worth of assets. The General Services Section (GSS), under the Division of Administration, is mandated to provide property management and control services including: receiving and inspection, property control and inventory, and property disposal. To provide these services, GSS has three General Service staff who report to the Chief of Section. GSS property management functions are complemented by activities carried out by main asset holders at ICTY, including: safekeeping of assets, maintaining records of asset assignments, monitoring of stock levels and initiating asset disposals. The Security Investigations Unit, under the Division of Administration, Security and Safety Section and comprising one General Service staff, has the responsibility for investigating loss of ICTY property.
4. Comments provided by ICTY are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

5. The audit of was conducted to assess the adequacy and effectiveness of the ICTY governance, risk management and control processes in providing **reasonable assurance regarding asset management**.
6. The audit was selected because previous OIOS and Board of Auditors reports had identified deficiencies in asset recording, donation and write-offs. Also, the risk associated with the disposal of property was high as ICTY reaches the end of its mandate required by 31 December 2014¹.
7. The key controls tested for the audit were: (a) governance framework; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:
 - (a) **Governance framework** – controls in relation to the system of delegation of authority and establishment of appropriate governance mechanisms that provide reasonable assurance that asset management is implemented by ICTY efficiently and effectively.
 - (b) **Regulatory framework** – controls that provide reasonable assurance that policies and procedures: (i) exist to guide asset management; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

¹ Security Council Resolution 1966 (2010), 22 December 2010

8. The key controls were assessed for the control objectives shown in Table 1.
9. OIOS conducted this audit from July to October 2012. The audit covered the period from 1 January 2010 to 30 June 2012.
10. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

11. The ICTY governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **adequacy and effectiveness of asset management**. OIOS made four recommendations to address the issues identified in the audit. ICTY had an adequate governance framework that included: standard delegation of property management authority; a special regime of delegation of property management authority to expedite the approval of asset disposals in the framework of the Tribunal's Completion Strategy; a Local Property Survey Board; and a Vehicle Establishment Committee. However, ICTY needed to improve compliance with established delegation of authority. As regards regulatory framework, ICTY needed to address the issues relating to inadequate planning of asset disposals and monitoring of stocks and delayed disposal of non-expendable property.

12. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

Table 1: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Adequacy and effectiveness of asset management	(a) Governance framework	Satisfactory	Satisfactory	Satisfactory	Partially satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Governance framework

Delegated authority on property management was not fully complied with

13. The following exceptions were observed in the review of compliance with the system of delegation of authority:

- (a) ICTY did not comply with the delegation of authority in two of 36 cases reviewed (or 6 per cent). One case was wrongly classified and not submitted for the required Local Property Survey Board (LPSB) review and approval. In another case, a donation, ICTY failed to identify the need for Headquarters Property Survey Board (HPSB) approval;
- (b) Audit trails for two disposal cases were inaccurate. Documentation of these cases showed that the dates of disposal were prior to the dates of approval of the disposal. ICTY explained that there was a problem with configuration of the dates in the property management system; and
- (c) ICTY disposed of furniture amounting to \$337,748 without going through the required approvals.

(1) ICTY should comply with the delegation of authority for property management on disposal of all property, including furniture, and ensure that deficiencies in the configuration of the property management system are corrected to provide adequate documentation of compliance with the delegation of authority.

ICTY accepted recommendation 1 and stated that it instituted an internal review process for cases to be submitted to the LPSB to mitigate the chances of incorrect classification and extended the write-off review and disposal regime to include furniture. Furthermore, the Property Management Assistant would oversee asset disposals and effective disposal dates would be added manually to the case documentation to avoid system errors. Recommendation 1 remains open pending receipt of disposal case documentation that demonstrates compliance with the delegation of authority.

B. Regulatory framework

Need for an asset disposal plan and to monitor stocks

14. ICTY did not have an asset disposal plan. The Information Technology Services Section (ITSS), the main asset holder at ICTY, as of 1 August 2012, had 728 items in stock with a purchase value of \$877,884. The average age of these items was six years and they were kept in stock for an average of 1.6 years. An analysis of sampled commonly used IT items indicated that in October 2012, ITSS was holding stocks, except for computer monitors, that were above the 5 per cent safety stock level considered acceptable by ITSS (stock levels in table 2 below). With the forecast decrease of 5 per cent in ICTY posts by January 2013 (from 976 posts to 923), the stock levels for desktops and computer monitors (items for which we can establish a direct relation with the number of ICTY posts) would increase further from 8 and 2 per cent to 11 and 8 per cent, respectively, considering the current ratios of usage of this equipment.

Table 2: Stocks of sampled IT equipment as of October 2012

IT sampled items	Total of items (A)	Items in Stock (B)	Stock levels (%) (C) = (B) / (A)
Desktop	1,808	151	8%
Fax Machine	80	15	19%
Laptop	105	24	23%
Mobile Telephone	197	35	18%
Monitor	2,188	44	2%
Printer	373	63	17%
Scanner	100	17	17%

15. ITSS justified the current stock levels based on the need to respond to unforeseen and unbudgeted demands like special projects and requests of support to other organizations, uncertainty regarding the use of General Temporary Assistance funds, and the need to keep spares to maintain equipment from different periods and technologies.

16. Although ITSS had procedures for the review of stocks that remain in store for more than six months², these procedures were not implemented in 2010 and 2011, and the 2012 exercise had not been completed at the time of this audit. In addition, these review procedures did not incorporate relevant information to aid in determining adequate stock levels per equipment, such as updated forecasts of the ICTY posts and other additional requirements. The additional requirements for equipment were assessed in October 2012 as 43 per cent of ICTY total requirements or 728 units adding to the 976 ICTY posts, and included: training; common use; dedicated tasks; and use by other organizations³.

17. Inadequate monitoring of stock levels and planning of disposals may delay unnecessarily the write-off and disposal of surplus items and will require additional workload at the end of the Tribunal's life, when there will be fewer resources available. Also, the longer it takes to initiate write-off and disposal actions, the less attractive property would be for disposal through sale, transfer or donation, as per requirements set in Financial Rules 105.22 and 105.23.

(2) ICTY should: (a) periodically review the levels of stocks considering the foreseen operational requirements at the Tribunal and at other organizations it supports; and (b) establish an asset disposal plan for the write-off and disposal of surplus items, including timelines for the disposals and focal points responsible for its implementation.

ICTY accepted recommendation 2 and stated that procedures for the review of stocks would be reviewed and if necessary updated in January 2013, and that it would review and update the asset disposal plan involving all asset holders. Recommendation 2 remains open pending receipt of a copy of updated procedures for the review of stocks and the asset disposal plan.

Access rights to the property management system were not adequately segregated

18. The ICTY property management system included the Asset and Inventory Database (AIDB), for recording property and for conducting physical inventories and CATSWO/CATS, for write-off and reporting. OIOS noted that access rights to these systems were not adequately segregated, as follows:

² "Ageing Stock Items Review Policy", ITSS Operations, 8 August 2007

³ Association of Defence Counsel, ICTR and several loans to other organizations

- (a) The current access rights to the system only included “Read Only” and “Read and Write” access and did not provide differentiated functionalities to distinguish between and within technical (i.e., maintenance of users and of the database) and operational functions;
- (b) There were 57 "Read and Write" access profiles to both CATS and AIDB, for a total of 40 users, most of them from ITSS (28 profiles for 20 users), demonstrating dispersion of asset management activities through a high range of users; and
- (c) The list of users to the system included 11 users with outdated “Read and Write” access rights attributed to former staff members and to external auditors while on temporary assignment in ICTY.

19. A user with “Read and Write” access to both AIDB and CATS was able to perform single handedly all functions in the life cycle of property management, without segregation of duties from initiation to completion of transactions. As a mitigating control, GSS verified on a monthly basis the integrity of data through its reporting process for non-expendable properties (NEP). However, such practice did not fully prevent unauthorized entries in property records.

(3) ICTY should review the list of current users of the property management system to remove outdated/unnecessary user profiles and ensure that the current access rights in place provide for adequate segregation of duties.

ICTY accepted recommendation 3 and stated that it had reviewed the list of current AIDB and CATS users to remove outdated users and assess the current access roles in place to ensure adequate segregation of duties. ICTY further indicated that ITSS, in consultation with GSS, agreed with the following: (a) the list of persons who have read and write access to both CATS and AIDB would be limited to database administrators and staff essential to support the current processes. In addition to two database administrators, only two other people (one from GSS and one from ITSS) would have full read and write access simultaneously to CATS and AIDB; (b) outdated and unnecessary permissions had been identified and revoked; and (c) the list of current access permissions had been transmitted to the Chief GSS and onwards to OIOS. Based on the action taken by ICTY, recommendation 3 has been closed.

Delayed disposal of two high-value NEPs

20. ICTY inventory records included two NEP items that needed further review to ensure that they are disposed of properly or put to proper use:

- (a) A shooting simulator was purchased in 2001, with an acquisition value of \$141,020 and had a current residual value of \$33,031. Security and Safety Section (SSS) reported that the item had never had much use due to faulty working conditions and because ICTY, shortly after the purchase, changed the type of weapons that Security Officers use, as per United Nations standards. During 2002, SSS directly or through the Procurement Section initiated contacts with the vendor to try to solve the problems with the equipment. Despite continuing faulty working conditions and little use of the weapons, the vendor invoice was certified for payment in December 2002 to ensure availability of funds previously obligated, and a final acceptance certifying operational conditions of the equipment was issued in November 2005. Upon final acceptance of the equipment, a one-year guarantee was activated, but actually never used. According to SSS, all contacts with the vendor ceased in 2003. A proposal for disposal, with a reported condition of “functional” and “surplus” as reason for write-off was submitted to LPSB

for review in 7 October 2010 and again in 10 February 2011, but the case was withdrawn. The equipment currently lies dismantled in the storeroom.

(b) A call recorder was purchased in November 2011, with an acquisition value of \$22,993. The equipment was intended to be used at the United Nations Detention Unit, hosted by the Dutch Government, to provide recording of detainee's calls at low rates. The equipment became obsolete shortly after it came into use, when competent Dutch Authorities announced the change of the communication system in Dutch prisons on a national scale. The acquisition process of this equipment took nearly two years and the equipment was operational only from January 2012 until July 2012, when it was stored.


21. In the case of the shooting simulator, ICTY did not: (a) take appropriate action to address the faulty conditions of the equipment with the vendor and ensure delivery as per terms of the contract, as required by the Procurement Manual; and (b) initiate timely disposal action, after concluding that the equipment was not to be used by SSS, allowing it to become more obsolete and less attractive for disposal through sale or transfer. In the case of the call recorder, considering the existence of external interdependencies, efforts should have been made, during the definition of requirements and specifications phase, to contact relevant Dutch Authorities to assess possible impediments to the implementation of the intended solution. As a result, \$164,013 (plus the administrative costs with each acquisition process) was spent without proper benefit for ICTY.

(4) ICTY should: (a) find an economical and appropriate use for the shooting simulator and call recorder or expeditiously dispose off these items, through sale or transfer to other interested UN organizations; and (b) enhance due diligence in identifying needs and/or defining product specifications and in dealing with vendor performance issues in future acquisition processes.

ICTY accepted recommendation 4 and stated that it had identified appropriate use or disposal for the call recorder and shooting simulator, as per documentation provided to OIOS, and that the disposal process of the shooting simulator will proceed in January 2013. The Tribunal also accepted that greater diligence should be given to user's needs identification and product specifications to ensure best-value for money procurement, including implementation of: (a) more thorough requirements analyses to ensure adequate identification of needs, with possible resource to external experts when the Tribunal does not have expertise in drafting technical specifications; and (b) enhanced market research to identify relevant suppliers and products to meet the needs of the Tribunal. Recommendation 4 remains open pending receipt of documentation showing the approval of the disposal of the shooting simulator.

IV. ACKNOWLEDGEMENT

22. OIOS wishes to express its appreciation to the Management and staff of ICTY for the assistance and cooperation extended to the auditors during this assignment.



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STATUS OF AUDIT RECOMMENDATIONS

Audit of asset management at ICTY

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	ICTY should comply with the delegation of authority for property management on disposal of all property, including furniture, and ensure that deficiencies in the configuration of the property management system are corrected to provide adequate documentation of compliance with the delegation of authority.	Important	O	Submission to OIOS of disposal case documentation that demonstrates compliance with the delegation of authority	31 July 2013
2	ICTY should: (a) periodically review the levels of stocks considering the foreseen operational requirements at the Tribunal and at other organizations it supports; and (b) establish an asset disposal plan for the write-off and disposal of surplus items, including timelines for the disposals and focal points responsible for its implementation.	Important	O	Submission to OIOS of a copy of updated procedures for the review of stocks and the asset disposal plan	31 July 2013
3	ICTY should review the list of current users of the property management system to remove outdated/unnecessary user profiles and ensure that the current access rights in place provide for adequate segregation of duties.	Important	C	Action completed	Implemented
4	ICTY should: (a) find an economical and appropriate use for the shooting simulator and call recorder or expeditiously dispose off these items, through sale or transfer to other interested UN	Important	O	Submission to OIOS of documentation showing the approval of the disposal of the shooting simulator	31 January 2013

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by ICTY in response to recommendations.

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	organizations; and (b) enhance due diligence in identifying needs and/or defining product specifications and in dealing with vendor performance issues in future acquisition processes.				